Family Zone Cyber Safety Limited
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7 February 2019

Ms Isabelle Andrews
Adviser, Listings Compliance (Perth)
Level 40, Central Park, 152-158 St Georges Terrace,
Perth WA 6000

Dear Isabelle

RESPONSE TO APPENDIX 4C QUERY

Family Zone Cyber Safety Limited (the **Company**) refers to your letter dated 4 February 2019 in relation to the Company's Appendix 4C quarterly report for the period ended 31 December 2018.

Before responding to your specific questions please find hereunder some commentary on the Company's current financial circumstances.

1. As at 31 December 2018 the Company had a cash balance of $3.6M. As communicated in our Appendix 4C report the Company received approximately $1.0M in the first week of January in relation to R&D tax incentives and from the balance of funds from our recent capital raising and thus the Company had an effective cash balance of approx $4.6M at year's end (including these funds).
2. The majority of the Company's revenue comes from the Australian and New Zealand education sector which is subject to seasonality in which a significant portion of invoicing and cash collections are completed in the March quarter. The Company had a record sales (contracting) period in the December quarter of 2018 and accordingly in the current quarter expects to generate the largest cash collections from customers that the Company has ever achieved.
3. As reported in our Appendix 4C estimated cash outflows are $3.966 million which are below the effective cash position without taking account of revenues to be received in the quarter. These revenues include R&D tax incentives, customer and other income.
4. As reported in our Appendix 4C and more generally the Company's revenue metrics (revenue and collections) have been doubling year on year.
5. As reported in our Appendix 4C the Company has undertaken a substantial cost cutting program which has already reduced quarterly costs by approximately $1M.
6. The Company expects to receive $1.3M in R&D receipts in the half ended June 2019.
7. Considering the above, the Company expects the March quarter of 2019 to consume a similar cash burn to the $1.2M reported in the December quarter.

Accordingly, the Company is confident in its financial position going forward into the 2020 Financial Year

Response to questions

The Company provides the following responses to your queries:

family zone

1. Does FZO expect that it will continue to have negative operating cash flows for the time being and, if not, why not?

The Company expects to have negative operating cash flows albeit these are reducing rapidly on an annualised basis. The Company estimates that it will reach break-even in early 2020 through a combination of a recurring revenue base and through recently announced material reductions in operating costs.

2. Has FZO taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

In support of the Company's growth strategy, the Company is in constant contact with advisors. The Company is exploring a number of fundraising alternatives, including funding to take advantage of market opportunities (particularly in our growth market of USA). The Board is comfortable with the trajectory of the business and is comfortable about the ability to raise further capital in the future at the appropriate time which is not yet finalised.

3. Does FZO expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Yes, the Company expects to be able to continue its operations and to meet its business objectives based on its responses to items 1 and 2 above.

4. Please confirm that FZO is complying with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.

The Company confirms it is in compliance with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.

5. Please confirm that FZO's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of FZO with delegated authority from the board to respond to ASX on disclosure matters.

The Company confirms that this letter and the responses above have been authorised and approved by the Board.

Yours sincerely

Emma Wates
Company Secretary

4 February 2019

Ms Emma Wates
Company Secretary
Family Zone Cyber Safety Limited
945 Wellington Street
West Perth WA 6005

By email:

Dear Ms Wates

Family Zone Cyber Safety Limited ('FZO'): Appendix 4C Query

ASX refers to FZO's Appendix 4C quarterly report for the period ended 31 December 2018 lodged with the ASX Market Announcements Platform and released on 31 January 2019 (the 'Appendix 4C').

ASX notes that FZO has reported:

- negative net operating cash flows for the quarter of $1,203,000;
- cash at the end of the quarter of $3,595,000; and
- estimated cash outflows for the next quarter of $3,966,000.

It is possible to conclude, based on the information in the Appendix 4C, that if FZO were to continue to expend cash at the rate indicated by the Appendix 4C, FZO may not have sufficient cash to continue funding its operations.

Request for Information

In view of that, ASX asks FZO to answer separately each of the following questions and provide the following confirmations in a format suitable for release to the market under Listing Rule 18.7A:

1. Does FZO expect that it will continue to have negative operating cash flows for the time being and, if not, why not?
2. Has FZO taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
3. Does FZO expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
4. Please confirm that FZO is complying with Listing Rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.
5. Please confirm that FZO's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of FZO with delegated authority from the board to respond to ASX on disclosure matters.

Please also provide any other information that FZO considers may be relevant to ASX forming an opinion on whether FZO is complying with Listing Rule 12.2 that a listed entity's financial condition must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **09:00 AM AWST Friday, 8 February 2019**.

If we do not have your response by then, ASX will have no choice but to consider suspending trading in FZO's securities under Listing Rule 17.3. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, FZO's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market. Your response should be sent to me by e-mail at **ListingsCompliancePerth@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rule 3.1 and 3.1A

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A. In responding to this letter, you should have regard to FZO's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that FZO's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in FZO's securities under Listing Rule 17.1. If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

Isabelle Andrews
Adviser, Listings Compliance (Perth)